

The Effects of Organizational Culture and Leadership Style toward Employee Engagement and Their Impacts toward Employee Loyalty

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The concept of employee engagement has been discussed by many of HRD practitioners lately because it is believed to have positive impacts toward performance, work attitude and work behavior. Although empirical studies have attracted interests from many researchers, researches on this topic were still limitedly done in western countries. This research which was done in Indonesia in hotel sector was expected to provide support toward research model on employee engagement in Asian context. This research was aimed to find out whether organizational culture and leadership style are included as factors which affect employee engagement and if employee engagement is a mediating factor for organizational culture and leadership style toward employee loyalty. Research data was gained from 102 respondents by means of structured questioner. Through multiple regression test and two-stage least squares analysis, a hypothesis that organizational culture and leadership style have effects toward employee engagement were supported in this research. Employee engagement has also been found to significantly affect loyalty. Besides that, the role of employee engagement as a mediating variable for the effect of organizational culture and leadership style toward loyalty also has been proved in this research.

Keywords: *employee engagement, organizational culture, leadership, loyalty*

Research Area: Management (Human Resources Management)

1. Introduction

The concept of employee engagement is widely discussed in the literature of human resource management during this decade. Employee engagement is defined as a degree to which extent an employee would be emotionally and intellectually committed to an organization or group (Lockwood 2007). A number of empirical studies related to this topic have started to receive attention from researchers although still relatively limited.

Several factors have been studied as antecedents or predictors of employee engagement. Researches conducted by several researchers such as Schaufeli and Bakker (2004), Saks (2006), McBain (2007), Shuck (2010), Ram and Prabhakar (2011), found that there were a number of organizational factors and also work factors which became the driving factors in creation of employee engagement. Organization factors

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which were found positively related to employee engagement were perceived organizational support, procedural and distributive justice, reward and recognition (Saks 2006; Ram and Prabhakar 2011), job fit, affective commitment, and psychological climate (Shuck 2010).

According to McBain (2007), one of the factors that drive employee engagement is organizational culture. Organizational culture is a system of values held and conducted by members of an organization which distinguishes the organization from other organizations. The ideal organizational culture is an organizational culture of openness, supportive attitudes, and good communication between the organization and its employees. Fairness and trust as organizational values provide positive impacts on the creation of employee engagement as well. A company that has good organizational culture can maintain its culture if the employees working in that company are willing to remind each other to maintain and run the values.

Some references mentioned about the importance of a leader's role to encourage employee engagement (Vazirani 2005). Leadership style is a pattern emphasized on a certain leadership behavior or attitude which is adopted by a leader in interacting with his subordinates. Leadership style used by a corporate leader will affect the feelings of his employees, including the employees' engagement. A communicative leader who is willing to involve with his employees will bring higher level of employee engagement compared to authoritarian leader.

Employee engagement is believed to have positive impact on the organization and becomes one key factor to the success of an organization. Strong employee engagement will result in satisfying performance from the employee. Employees who have strong engagement with the organization where they work will be willing to work harder than the others. High employee engagement level to the organization is believed to increase the talents and employee's individual performance which in turn can have a positive impact on the organization performance (Margaretha and Saragih 2008).

A number of empirical studies showed that employee engagement provides positive impact toward the work attitudes, work behaviors and employee performance. A meta-analysis of around 7,939 business units involving 38 companies showed that there was a correlation between employee engagement with the work outcomes such as consumer's satisfaction, productivity, profit, and employee turnover (Harter, Schmidt and Hayes 2002). Saks (2006) found that employee engagement had positive impact on work satisfaction, organizational commitment and Organization Citizenship Behavior (OCB) and also negatively associated to the intention to leave. Qualitative research has showed that an engaged employee is an energetic employee and always tries to achieve the best for himself (Schaufeli and Bakker 2004).

Loyalty is something that has to be owned by employees who work in an organization. Research done by Schaufelli and Bakker (2004), Saks (2006) Shucks (2010) and research by Ram and Prabhakar (2011) found that engaged employees have less intention to move from the company where they work. In other words, employees who are engaged to their company are also more loyal to their organization.

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Survey done by Tower Perrins (2007) toward 85.000 employees in 16 countries showed that there was a wide difference of employee engagement level between those countries, the lowest was in Asian countries (7%) compared to Mexico (40%) and America (21%) as examples. Employee engagement model had varied possibilities based on the organization's characters and the condition of environmental culture. So that further research about employee engagement across cultures in many countries is highly expected.

Based on the background above, this research was conducted in Indonesia especially to employees in one of Indonesian companies in order to enrich the research model literature about the existed employee engagement model in Asian context.

Some research issues to be sought for the solution in this research are as follow:

1. Does organizational culture affect employee engagement?
2. Does leadership style affect employee engagement?
3. Does employee engagement affect employee loyalty?
4. Does employee engagement become a factor which mediates the effect of organizational culture and leadership style toward employee loyalty?

2. Theoretical Review and Research Model Development

2.1 Organizational Culture and Employee Engagement

According to McBain (2007), one of the factors that drive employee engagement is organizational culture. Lockwood (2007) also stated that work environment culture was one factor affecting employee engagement. A supporting culture in friendly work environment will really help to create employee engagement. Employees who get more compensation and benefits will feel more engaged to the organization. Moreover, mission and vision of the organization, treatment from other members, work policy and work balance will support to create employee engagement.

The correlation between employee engagement and organizational culture can be explained using Social Exchange Theory. As being known, the engagement of employees and their organization is a result of 2-way interaction between the employees and the organization (Robbinson et al., 2004). Employees who feel that they get good facilities and attention from the company may feel that they have responsibility to repay to the company by for example, working better. This is implicitly stated in the exchange principle which according to Social Exchange Theory is a good relationship exists between two parties which will bring trust, loyalty, and commitment from time to time as long as that relation still gives benefits to each other (Cropanzano and Mictchell 2005). Meanwhile, some empirical studies found that perceived organizational support (POS) was positively related to employee engagement (Sacks, 2006; Ram and Prabhakar 2010; Shuck 2010). Organizational culture has similar concept construction with POS in which the implementation of good values and management system can be assumed as a support from the organization to its employees. Good organizational culture assumed by the employees can bring a feeling of being safe psychologically to

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the employees themselves. Research done by Kahn (1990) found out that there was a positive correlation between employees' Psychological Safety and employee engagement. Based on the earlier explanation, a hypothesis was developed as follows:

H1: Organizational culture affects employee engagement

2.2. Leadership Style and Employee Engagement

McBain (2007) stated that employee engagement is built through a process and need along time and high level commitment from the leaders. While according to Seijts (2006) if a leader can play his leadership role well, it can be expected that there will be a positive result since the employees will become more engaged to the organization where they work. Besides that, Lockwood (2007) also said that good communication between the employees and their leader may affect employee engagement. In this case, a leader who can deliver orders to his subordinates can encourage employee engagement on the employees themselves. Watson, (2009) in his article highlighted that the roles of a leader is to increase employee engagement.

Several previous researches found that social supports such as organizational support and support from the leader have positive relationship with employee engagement (Maslach et.al. 2001; Sachs 2006). Furthermore, Vazirani (2005) said that employee engagement is a level of commitment and involvement of the employees toward the company and values held in the company are affected by several factors which one of them is leadership style.

That can also be explained by means of Social Exchange Theory. Attention and care shown by a good leadership can trigger the feeling of safety for the employees which in turn may encourage the employees to pay it back by showing loyalty to the organization and strong engagement with the organization. In this context, a democratic or participative leader will support more on the creation of employee engagement. A participative leader is not only giving orders but also actively involved in finishing the works. This type of leader is also willing to listen and consider the feedbacks from his subordinates so that they will feel more respected, and as a result will encourage them to be more engaged to the organization. Based on that explanation, a hypothesis was developed as follows:

H2: Leadership style affects employee engagement

2.3 Employee Engagement and Loyalty

Schaufelli and Bakker (2004) found that engaged employees are more bounded on the company and their intention to leave is lower. In other words, they are more loyal to the organization. This can happen because employees who have strong employee engagement usually will get positive experience and have positive image about their organization.

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Several previous studies showed that employees with strong employee engagement do not have intention to leave their organization or in other words, they have a strong loyalty to their organization. Vazirani (2005) said that employee engagement is an important thing for the organization because it may affect the loyalty of employees' works in a company. Haid and Sims (2009) stated that employee engagement makes the employees feel that they have commitment toward the company, feel proud to work there and feel satisfied with their works and their company. They do not have any intention to leave and work for other company and in the end; this will increase the employees' loyalty. Shuck (2010) in his research toward 283 employees from various industrial sectors found that employee engagement was reversely related to turnover intention. In other words, engaged employees are more loyal to their organization. Based on previous explanation, a hypothesis was developed as follows:

H3: Employee engagement affects employee loyalty

2.4 The Role of Employee Engagement as Mediating Variable.

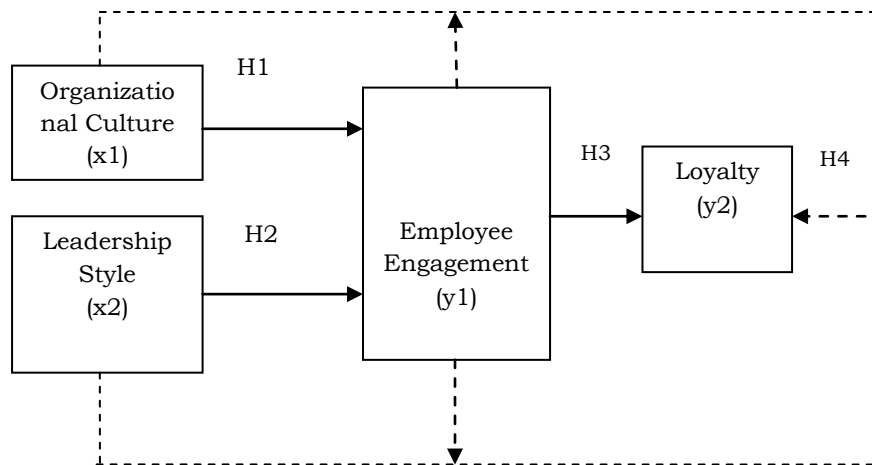
There is a possibility that two or more variables altogether may affect a dependent variable. Another variable may also have effect as a mediating variable. In this case, organizational culture and leadership style may altogether affect loyalty with employee engagement as a mediating variable. Rais, (2003) in his research about employees' loyalty found that one factor affecting employees loyalty was corporate culture.

Good leadership style also will increase employees loyalty toward their company and also reduce harmful behaviors. Employees' loyalty toward the company may decrease in which one of the factors is bad leadership style which underestimates the employees (Watson 2009). Vazirani (2005) said that employee engagement is a level of commitment and involvement of the employees toward the company and values held in the company are affected by several factors which two of them are organizational culture and leadership style. Furthermore, it was also stated that employee engagement is an important thing that can affect loyalty of employees working in a company. Based on the explanation above, a hypothesis was developed as follows:

H4: Organizational culture together with leadership style affects employee loyalty with employee engagement as mediating variable.

Based on the formulation of those four hypotheses, a research model was developed as follows:

Figure 1: Research Model



3. Research Method

This research was an explanatory research which was aimed to find the effects of organizational culture and leadership style toward employee engagement and whether engagement has effect on employee loyalty. Data were gained using structured-questionnaires that were distributed to the respondents. Respondents in this research were all employees in a hotel in Central Java, both managerial and non-managerial staffs. There were 12 managerial staffs and 90 non-managerial staffs. So, there were 102 respondents and saturation sampling technique was used where all population were taken as respondents of the research. General description of respondents showed that most of them were male (85%), mostly were between 31-40 years old (46.31%), had senior high school as their latest educational background (65.26%), years of working mostly were more than 15 years (33.69%), and mostly positioned as non-managerial staff (87.37%).

The measurement of employee engagement concept used a scale developed by The Gallup Organization (2004), consisted of 12 questions. Organizational culture concept was measured by adopting a scale used by Triwidodo (2009) in his research by using 6 questions. Meanwhile, for measuring leadership style concept adopted a scale used by Merry (2008) which consists of 9 items. To measure loyalty, a scale with 5 items was used. All questions were measured using Likert scale of 1-5 with disagree answer was given 1 score until really agree that was given 5 score.

Data analysis was done in several stages before testing the hypothesis by means of multiple-regression test using SPSS software version 16.0. Before testing the hypothesis, a validity and reliability test was done for empirical indicators. Classical assumption and hypothesis test also were done. From the validity test result, there were 3 invalid items which later were expelled and were not used in the next step. Reliability test result showed that all items were reliable as shown by Cronbach Alpha value > 0.60 (Ghozali 2005) which can be seen in each concept as follows: employee engagement (0.81); leadership style (0.88), organizational culture (0.80); and loyalty (0.97). Classical

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assumption test did not show any multicollinearity and autocorrelation symptoms, normal data distribution and there was not any heteroscedasticity.

4. Research Results and Discussion

Hypothesis 1, 2, 3 were tested using multiple-regression test to find out whether those hypotheses proposed in this research are acceptable or not. Meanwhile, hypothesis 4 was tested using two-stage least squares analysis in order to find out the role of employee engagement as a mediating variable between organizational culture and leadership style toward loyalty. Below is presented the analysis result of multiple-regression test for organizational culture and leadership style toward employee engagement, regression test of employee engagement toward loyalty.

Table 4.1: Result of Tests for Hypothesis 1 and 2

Independent variable	Unstandardized Coefficient B	Standardized Coefficient Beta	t	Sig.
Constant	1.282		4.991	.000
Leadership style	.475	.536	4.594	.000
Organizational behavior	.163	.228	1.949	.043
R	.533			
Adj.R square	.523			
F	52.515			
Sig. F	.000			

a. Predictors: (Constant), organizational culture, leadership style

b. Dependent Variable: *Employee Engagement*

The test for hypotheses 1 and 2 which formulated that organizational culture (X1) and leadership style (X2) affects employee engagement (Y1) was significantly supported in this research. From the correlation coefficient, it could be seen that level of correlation between leadership (0.475) toward employee engagement was higher than organizational culture (0,163). The result of hypothesis test above was completed by simultaneous test result (F-test) which showed that the regression model could be used to predict employee engagement.

Table 4.2: Result of the Test for Hypothesis 3

Independent variable	Unstandardized Coefficient Beta	Standardized Coefficient Beta	t	Sig.
Constant	1.889		7.007	.000
Employee Loyalty	.474	.609	7.399	.000
R	.371			
Adj.R square	.364			
F	54.746			
Sig. F	.000			

a. Predictors: (Constant), Employee Engagement

b. Dependent Variable: Employee Loyalty

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The test for hypothesis 3 which formulated that employee engagement affects employees loyalty was supported significantly in this research. From the correlation coefficient, we could see that level of correlation between employee engagement variable and employees' loyalty was 0.474. From table 4.2 also could be seen that R square = 0.364, which showed that 36.4% employee engagement affected employee loyalty, the rest of 61.6% was affected by other factors that were not included in this research.

Table 4.3: Test Result of the Role of Employee Engagement as Mediating Variable (Two-stage Least Squares Analysis)

Model Description						
		Type of Variable				
Equation 1	y2	Dependent				
	y1	Predictor				
	x2	Instrumental				
	x1	Instrumental				
MOD_2						
a. Regression through the Origin						
Coefficients						
		Unstandardized Coefficients				
		B	Std. Error	Beta	t	Sig.
Equation 1	y1	1.078	.013	.997	80.570	.000

From table 4.3 could be seen that employee engagement variable has t value = 80.570 with significance level of 0.000. Because $t = 80.570 > t \text{ table } (df = 93) \text{ of } 1.6614$ and significance level $0.000 < 0.050$, it could be said that employee engagement was a mediating variable for organizational culture and leadership style toward employee loyalty.

4.1 Discussion

The result of multiple regression test for organizational culture and leadership style toward employee engagement and explanation in the earlier part of this article showed that hypothesis about organizational culture affects employee engagement and hypothesis about leadership style affects employee engagement were supported in this research. This finding supports the previous researches such as the research done by McBain (2007), Lockwood (2007) which said that the culture of work environment was one of the factors affecting employee engagement. This empirical evidence also highlighted that friendly organizational culture which supports and fulfills the employees needs will help to create employee engagement.

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Besides organizational culture, leadership style also has been proved to have effect on the creation of employee engagement. This finding was in accordance with McBain (2007) finding stated that employee engagement is built through a process, needs a long time and high level commitment from the leaders. This also was supported by several previous researches (Maslach et.al. 2001; Sachs 2006; Lockwood 2007) which found that well-run communication between employees and also between employees and their leader will have effect on employee engagement.

Based on this research, leadership style significantly have effect on employee engagement. Social exchange theory can be used to explain that good organizational behavior and leadership style will create positive impression in the employees' mind and the employees will have a strong engagement with the organization as a feedback from that positive impression. Managers and company leaders must pay attention that to improve employee engagement, the company needs to create a positive and conducive organizational culture and also implement suitable leadership style, in this case is supporting leadership style.

From the explanation of the result from multiple regression test explained previously, it can also be seen that hypothesis 3 saying that employee engagement has effect toward employee loyalty can be accepted. This result was in accordance with Schaufelli and Bakker (2004), Saks (2006) and Shuck (2010), who said that engaged employees have stronger relation with the organization and their intention to leave is less. In other words, it can be said that engaged employees are more loyal to the organization. While Haid and Sims (2009) stated that employee engagement makes the employees to have desire to stay and work in that organization and usually they will have better work performance.

Looking at the significant effect of employee engagement toward loyalty from this research and from the previous researches, it is clear that employee engagement cannot be denied in order to get and maintain loyal employees in the company. This has become really important because the existence of loyal employees in a company will increase the company performance, especially if the employees are those who not only loyal but also highly engaged can be achieved. They will willingly and happily do their work and hopefully the results achieved and given to the company will also be maximized.

Based on the explanation on two-stage least squares analysis, so the role of employee engagement as a mediating variable between organizational culture and leadership style toward loyalty is acceptable. Therefore, this research showed that organizational culture and leadership style will affect employee engagement first and then have an impact on loyalty, not like as stated in some literatures that organizational culture and leadership have direct correlation toward employees' loyalty. This strengthens the previous analysis result that employee engagement is an important factor and deserves special attention if managers or company leaders want to have and maintain employees with high level of loyalty.

5. Closing: A Note for Future Research

The findings of this research support that employee engagement is a meaningful concept and requires serious attention from the company. Company needs to pay attention on factors that can encourage the creation of employee engagement such as organizational culture and leadership style because employee engagement has correlation with positive attitudes and work behaviors such as employees' loyalty.

The topic of employee engagement still has potential to be developed and completed in future researches. For future researches, employee engagement research model still can be developed by adding some other predictors' variable, elaborating various factors in work context in details, both organizational and individual context. It is also possible to examine which factor group that has more dominant influence. Besides that, various moderating variable are also still possible to be taken into research.

In the interpretation of this research result, it needs to be noted that there were some limitations in this research. This research was conducted to employees of one hotel in Indonesia so that the result interpretation can not be generalized for various other business sectors. Therefore, other researches with broader scope, more samples, more variation on business sectors and company scale are still needed in the future. Besides that, this research only used cross section data which means that data were only taken once during the research. In fact, employee engagement is created through a process. Therefore, it is suggested for the incoming researches to conduct a longitudinal research and experiment so that more accurate and concrete result can be achieved.

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